

**POLICIES OF
THE TENNESSEE DEPARTMENT OF TREASURY
COLLATERAL POOL BOARD**

I. ADMISSION TO COLLATERAL POOL

Rating Criteria. Any applicant requesting participation in the Collateral Pool (the Pool) must have a rating equal to or greater than fifteen (15) as determined from the most recent quarterly report published by Sheshunoff Information Services, Inc. (bank president's national peer group weighted rating) prior to application. Provided, however, the Collateral Pool Board (the Board) may admit an applicant with a rating of less than fifteen (15) if it determines that the applicant is otherwise financially sound. (T.C.A. §9-4-508(1)(A) and Rule 1700-4-1-.03(2)(b) of the *Official Compilation of the Rules and Regulations of the State of Tennessee*).

Financial Criteria. To be considered for admission to the Pool, an applicant must meet or exceed the benchmark levels of three (3) out of the four (4) following capital adequacy ratios:

(1) Primary Capital to Assets

Total Equity Capital
Total Assets

Benchmark Level: 5.5% minimum

(2) Total Capital to Assets

Subordinated Notes & Debentures
Limited Life Preferred Stock
Total Equity Capital
Total Assets

Benchmark Level: 6.0% minimum

(3) For banks, Regulatory (Tier I) Capital

Calculated in accordance with 12 CFR Part 225, Appendix A; 12 CFR Part 208, Appendix A; or 12 CFR Part 325, Appendix A, as applicable to the applicant based upon Federal Regulations.

For savings institutions, Core (Tier I) Capital

Calculated in accordance with 12 CFR Part 567.5(a), as applicable to the applicant based upon Federal Regulations.

Benchmark Level: The minimum capital required for Tier I Capital is the minimum established in the applicable Federal Regulations, notwithstanding that the applicable regulator may have established a higher level for a particular applicant.

(4) Regulatory (Tier II) Capital

For banks, calculated in accordance with 12 CFR Part 225, Appendix A; 12 CFR Part 208, Appendix A; or 12 CFR Part 352, Appendix A, as applicable to the applicant based upon Federal Regulations.

For savings institutions, Supplemental (Tier II) Capital

Calculated in accordance with 12 CFR Part 567(b), as applicable to the applicant based upon Federal Regulations.

Benchmark Level: The minimum capital required for Tier II Capital is the minimum established in the applicable Federal Regulations, notwithstanding that the applicable regulator may have established a higher level for a particular applicant.

(T.C.A. §9-4-508(1)(A) and Rule 1700-4-1-.03(2)(c) of the *Official Compilation of the Rules and Regulations of the State of Tennessee*).

II. DETERMINATION OF COLLATERAL PLEDGE LEVEL

If the qualified public depositories hold an aggregate of thirty percent (30%) or more of the total sum of deposits held in the State of Tennessee by financial institutions, the collateral pledging level shall equal one hundred fifteen percent (115%). Provided, however, the collateral pledging level shall equal one hundred five percent (100%) for any qualified public depository which has a bank rating equal to or greater than twenty-five (25) as determined from the most recent quarterly report published by Sheshunoff Information Services, Inc. (bank president's national peer group weighted rating), and meets at least seven (7) of the following nine (9) benchmark levels:

1. Capital Adequacy Ratios:

(i) Primary Capital to Assets

$$\frac{\text{Total Equity Capital}}{\text{Total Assets}}$$

Benchmark Level: 5.5% minimum

(ii) Total Capital to Assets

Subordinated Notes & Debentures
 Limited Life Preferred Stock
 Total Equity Capital
 Total Assets

Benchmark Level: 6.0% minimum

(iii) (I) For banks, Regulatory (Tier I) Capital

Calculated in accordance with 12 CFR Part 225, Appendix A; 12 CFR Part 208, Appendix A; or 12 CFR Part 325, Appendix A, as applicable to the applicant based upon Federal Regulations.

(II) For savings institutions, Core (Tier I) Capital

Calculated in accordance with 12 CFR Part 567.5(a), as applicable to the applicant based upon Federal Regulations.

(iv) (I) For banks, Regulatory (Tier II) Capital

Calculated in accordance with 12 CFR Part 225, Appendix A; 12 CFR Part 208, Appendix A; or 12 CFR Part 352, Appendix A, as applicable to the applicant based upon Federal Regulations.

(II) For savings institutions, Supplemental (Tier II) Capital

Calculated in accordance with 12 CFR Part 567(b), as applicable to the applicant based upon Federal Regulations.

Savings institutions must pass the three (3) risk-based capital requirements set forth in 12 CFR 567.2(a)(1).

2. Asset Quality Ratios:

(i) Loan Loss Allowance to Non-Performing Loans

Benchmark Level: 75% minimum

(ii) Loans 90 Plus Days to Total Loans

Benchmark Level: 2% maximum

(iii) Non-Performing Assets to Total Assets

Benchmark Level: 3% maximum

3. Earnings Ratio:

Return on Average Assets (Annualized)

Benchmark Level: .75% minimum
4. Liquidity Ratio:

Loans to Total Assets

Benchmark Level: 80% maximum

Provided, however, the collateral pledging level shall equal ninety percent (90%) for any qualified public depository which has a bank rating equal to or greater than forty (40) as determined from the most recent quarterly report published by Sheshunoff Information Services, Inc. (bank president's national peer group weighted rating) or an investment grade debt rating, and does not fail any of the four (4) capital ratio benchmarks as set out below, and does not fail any two (2) of the five (5) non-capital ratio benchmarks as set out below for two (2) consecutive quarters:

1. Capital Adequacy Ratios:
 - (i) Primary Capital to Assets

$$\frac{\text{Total Equity Capital}}{\text{Total Assets}}$$

Benchmark Level: 6.25% minimum
 - (ii) Total Capital to Assets

Subordinated Notes & Debentures
Limited Life Preferred Stock
Total Equity Capital
Total Assets

Benchmark Level: 6.75% minimum
 - (iii) (I) For banks, Regulatory (Tier I) Capital

Calculated in accordance with 12 CFR Part 225, Appendix A; 12 CFR Part 208, Appendix A; or 12 CFR Part 325, Appendix A, as applicable to the applicant based upon Federal Regulations.

(II) For savings institutions, Core (Tier I) Capital

Calculated in accordance with 12 CFR Part 567.5(a), as applicable to the applicant based upon Federal Regulations.

(iv) (I) For banks, Regulatory (Tier II) Capital

Calculated in accordance with 12 CFR Part 225, Appendix A; 12 CFR Part 208, Appendix A; or 12 CFR Part 352, Appendix A, as applicable to the applicant based upon Federal Regulations.

(II) For savings institutions, Supplemental (Tier II) Capital

Calculated in accordance with 12 CFR Part 567(b), as applicable to the applicant based upon Federal Regulations.

Savings institutions must pass the three (3) risk-based capital requirements set forth in 12 CFR 567.2(a)(1).

2. Asset Quality Ratios:

(i) Loan Loss Allowance to Non-Performing Loans

Benchmark Level: 100% minimum

(ii) Loans 90 Plus Days to Total Loans

Benchmark Level: 1% maximum

(iii) Non-Performing Assets to Total Assets

Benchmark Level: 1.5% maximum

3. Earnings Ratio:

Return on Average Assets (Annualized)

Benchmark Level: 1.00% minimum

4. Liquidity Ratio:

Loans to Total Assets

Benchmark Level: 80% maximum

Notwithstanding the foregoing, the collateral pledging level for a qualified public depository which has been operating less than three (3) years shall equal one hundred fifteen percent (115%), unless the Board determines that the qualified public depository should pledge collateral at a higher level in order to protect the integrity of the Collateral Pool.

III. REPORTING REQUIREMENT ENFORCEMENT POLICY

Monthly Depository Report

1. Collateral Pool staff shall call and write the financial institution after the first late report.
2. Whenever a report is late for a second time in a twelve (12) month period, the Collateral Pool shall call the financial institution. The Chair of the Collateral Pool Board shall write the president of the institution notifying him/her that the report is late and the possible penalties that could be imposed.
3. If a financial institution fails to submit the report timely on three (3) occasions within a twelve (12) month period of time, a representative from the institution must appear before the Collateral Pool Board to explain why the reports are late and explain what the institution is doing to rectify the situation.
4. The Board may issue a cease and desist order in accordance with TCA., §9-5-508(2). The Board may suspend or disqualify any institution for any violation of a cease and desist order.

Annual Certification Reports

1. If an institution fails to respond by the deadline, a letter will be mailed to the institution by April 10th requesting the reports by April 20th. Collateral Pool Board members will receive a copy of such letter.
2. If the reports are not received by April 20th, a representative from the institution must appear before the Collateral Pool Board to explain why the reports are late and explain what the institution is doing to rectify the situation.
3. The Board may issue a cease and desist order in accordance with TCA., §9-5-508(a). The Board may suspend or disqualify any institution for any violation of a cease and desist order.

(T.C.A. §9-4-508(1)(D) and Rules 1700-4-1-.03(2)(c) and 1700-4-1-.04(1)(b) of the *Official Compilation of the Rules and Regulations of the State of Tennessee*).



**STEVE ADAMS, STATE TREASURER
AND SECRETARY OF THE
COLLATERAL POOL BOARD**